1. Impairment Must Be Measured Against The Special Access Services That Carriers Are Seeking To Offer

Section 251(d)(2) requires that impairment be measured against "the services the carrier seeks to offer." 47 U.S.C. 251 (d)(2). This language requires the Commission to measure impairment against the ability to offer special access services separately from the ability to offer local exchange services because there is such a marked distinction between the two services. The two types of service are anything but "inextricably interrelated." 68

As demonstrated above, special access purchasers, end users, facilities, and services are very different from local exchange service purchasers. Special access services are purchased separately from local exchange services by a distinct group of customers, generally carriers, and are provisioned over high capacity dedicated facilities that local exchange purchasers do not buy. There are also are substantial differences in the economics, alternative facilities build-outs, regulation and customer relationships between the services. ILECs, as discussed above, do not maintain the majority of direct relationships with end users of special access services.

The service distinction between local exchange and access is well recognized in the Act, long-standing Commission regulatory policy, and, most importantly, in the market.⁶⁹ The Commission adopted a similar distinction in the *UNE Remand Order*,

Supplemental Order Clarification, 15 FCC Rcd at ¶¶9595, ¶ 14.

Supplemental Order Clarification, 15 FCC Rcd at 9594-9596, ¶ 13-16 ("The exchange access market occupies a different legal category from the market for telephone exchange services; indeed, at the highest level of generality, Congress itself drew an explicit statutory distinction between those two markets"). The fact that the Commission must analyze special access services separately from local exchange service based on long-standing market and regulatory distinctions between the two hardly suggests that the Commission must do so for every imaginable service that a requesting carrier might seek to offer. At a minimum, the Commission can treat services with similar characteristics as

drawing a line based on the type of customers CLECs sought to serve. Because certain types of customers order certain types of services, the two approaches may yield similar results. This is certainly true here, where special access services are ordered by carriers and larger business customers, and not by mass market customers. Whether separated based on the customer or the service, the stark distinction between special access and its customers and mass market local exchange service and its customers reflects basic market realities. These market realities require a separate analysis of impairment.

2. Applying The Commission's UNE Remand Order Demonstrates That Carriers Are Not Impaired In Their Ability To Offer Special Access Services Without ILEC UNEs

The *UNE Remand Order* sets out a framework for analysis under section 251(d)(2).⁷¹ The goal of that analysis is to determine whether alternatives to ILEC facilities are available on a "practical, economic and operational" basis. The simple fact that facilities-based CLECs provide over one-third of the country's special access services demonstrates that CLEC facilities are providing "practical, economic and operational" substitutes across the country.

The Commission's *Pricing Flexibility Order* confirms this market evidence.

Although the Commission suggested that application of the *Pricing Flexibility Order*

a single group. See In the Matter of Regulatory Treatment of LEC Provision of Interexchange Services Originating in the LEC's Local Exchange Area and Policy and Rules Concerning the Interstate, Interexchange Marketplace, CC Docket Nos. 96-149 and 96-61, Second Report and Order in CC Docket No. 96-149 and Third Report and Order in CC Docket No. 96-61, 12 FCC Rcd 15756, at 15782-15784, ¶¶ 40-44 (1997).

UNE Remand Order, 15 FCC Rcd at 3737-3738, ¶ 81 (UNE switching is available for mass market customers but not for larger business customers under certain conditions).

BellSouth does not necessarily subscribe to the Commission's multi-part analysis but applies it here as an example.

would not necessarily determine the results of unbundling analysis, ⁷² the *Pricing Flexibility Order*, because it is tailored to special access services, provides useful input into any unbundling decision concerning special access. Of particular note, where the *Pricing Flexibility Order's* Phase I test is met, competitors have made an "irreversible, sunk investment" in providing facilities-based alternatives to "almost all special access customers." Those alternatives are available for both loops and interoffice transport where the applicable test is met. At this point, competitors are sufficiently entrenched in the market such that they cannot be driven out. ⁷³ The presence of alternatives is precisely what the Supreme Court required the Commission to look at in analyzing impairment. Where these alternatives are as broadly present as they are for special access services, the Commission cannot find impairment.

The following sections apply the key elements of the Commission's impairment analysis to special access.

Ubiquity

The UNE Remand Order's impairment analysis first examines whether alternatives to ILEC facilities are sufficiently ubiquitous to create a "practical, operational and economic" alternative. The fact that 36 percent of the country's special access revenues belong to CLECs shows that CLEC facilities meet this test.

⁷² UNE Remand Order, 15 FCC Rcd at 3756-3757, ¶ 131-132.

Pricing Flexibility Order, 14 FCC Rcd at 14262, ¶ 77.

The *Pricing Flexibility Order* developed "an easily verifiable bright-line test"⁷⁴ to measure the extent of special access alternatives within an MSA. Where the Phase I test is met, "almost all special access customers have a competitive alternative." Table 4 of the *Special Access Fact Report* shows that this test is met in 183 of the 320 MSAs served by Bell companies. Thirty-seven MSAs served by BellSouth meet this test.

The conclusion that alternatives exist for "almost all" special access customers is entirely consistent with the *UNE Remand Order* conclusion that ubiquitous transport alternatives were not available for transport and loops used to provide basic local exchange service to mass market customers. The *UNE Remand Order* did not analyze impairment as it relates to special access services, ⁷⁸ and its conclusions simply reflect the important differences between special access and mass market local exchange services discussed above. ⁷⁹ Special access customers are, geographically, highly concentrated. ⁸⁰ In fact, 20 percent of BellSouth's wire centers account for over 90 percent of BellSouth's special access revenues. Obviously, CLECs and fiber wholesalers can achieve

Id. at 14262, ¶ 78. The test has Phase I and Phase II triggers for regulatory relief. Both triggers measure whether sufficient alternatives are present by examining the extent of collocation by alternative providers.

The Commission determined that MSAs "best reflect the scope of competitive entry, and therefore are a logical basis for measuring the extent of competition." *Id.* at 14260, ¶ 72.

⁷⁶ *Id.* at 14296, ¶ 142 (emphasis added).

Special Access Fact Report, Table 4 at 7. 154 MSAs meet the Commission's more stringent Phase II test.

⁷⁸ Supplemental Order Clarification, 15 FCC Rcd at 9594, ¶ 13.

The Commission's local transport conclusions were driven by its concern over mass market competition, requiring, in the Commission's analysis, coverage of essentially every wire center in an MSA. *UNE Remand Order*, 15 FCC Rcd at ¶ 321.

Switched Transport Order, 8 FCC Rcd at 7423, ¶ 90.

"ubiquitous" coverage of special access customers without blanketing an entire MSA, just a few wire centers will do.⁸¹

Second, connecting ILEC wire centers through interoffice transport may be important to mass market local competition because wire centers are where thousands of low capacity analog loops serving individual residences are aggregated, but those connection are not the key to special access competition. As the Commission has noted, direct connections between special access end users and carriers provide alternatives without touching ILEC wire centers. The construction patterns of CLEC fiber networks and the explosive growth of collocation hotels, a proves that there is no need to connect to ILEC central offices to serve business customers seeking these services.

The Commission's *UNE Remand Order* perceived a lack of record evidence that alternative fiber networks would connect ILEC offices with "all or substantially all of the" IXC POPs. 84 The evidence set out above and in the *Special Access Fact Report* demonstrates that the basic business plans of alternative access providers include connecting a broad range of POPs and that local transport providers do establish these connections. The rapidly increasing number of wholesalers of local fiber and collocation hotels provide additional alternatives for CLECs. In addition, CLECs and IXCs can

Thus, the Commission's conclusion that "there are few, if any alternative transport facilities outside the ILECs' networks that connect all or most of an ILEC's central offices," *UNE Remand Order*, 15 FCC Rcd at 3850, ¶ 343, is not determinative here, where all the evidence shows that customers are concentrated in a relatively small number of ILEC central offices. Connecting "all or most" central offices, or even more than a few, is absolutely unnecessary when it comes to special access services.

Pricing Flexibility Order, 14 FCC Rcd at 14280, ¶ 104 (the test is a "conservative measure of competition" because it ignores alternative providers that choose not to collocate in ILEC wire centers).

Special Access Fact Report at 7-8.

UNE Remand Order, 15 FCC Rcd at 3852, ¶ 348.

choose to locate their facilities on alternative fiber networks, including placing them at collocation hotels served by multiple fiber providers.

Cost and Time

The cost and time of self-provisioning alternatives are factors in the Commission's unbundling analysis. ⁸⁵ In the *UNE Remand Order*, the Commission concluded that the cost and time to construct a network matching the scope of an ILEC's entire interoffice transport network in order to offer service to a "broad base of consumers" weighed in favor of unbundling. ⁸⁶ Today, however, CLECs have ubiquitous special access networks throughout the country to serve carriers and larger businesses. Expanding those networks to reach remaining off-network customers requires only a limited additional buildout because networks are already installed, the customer base is relatively small and very concentrated. ⁸⁷ The Commission has observed that where CLECs have special access "infrastructure in place, the marginal cost of adding customers is not significant, and competitors are not likely to lack sufficient capacity for an extended period." ⁸⁸

Functionality and Quality

The *UNE Remand Order* concluded that "requiring carriers to utilize alternative sources of transport imposes functional and quality disadvantages" on requesting carriers

⁸⁵ *Id.* at 3855-3860, ¶¶ 355-364.

⁸⁶ *Id.* at 3855, ¶ 355.

CLEC networks can be extended using ILEC poles, ducts and conduits at TELRIC prices, CLEC rights-of-way, electric utility infrastructure, alternative wholesale transport facilities or wireless connections.

WorldCom v. FCC, (D.C. Circuit, Jan 2001), Brief of FCC, Respondent, at 36 (July 20, 2000).

because they would be forced to use a patchwork of alternative suppliers. Years of experience in the provisioning of special access service demonstrates that using an array of alternative providers does not create functional or quality problems. Carriers have been affirmatively choosing to use a patchwork of ILEC and multiple alternative providers to reach end user customers for many years. The OSS and courses of dealing for utilizing special access alternatives have been successfully tested over the years. Those systems have proven robust enough to yield over \$7 billion in annual special access revenues to CLECs. These market choices demonstrate that functionality and quality are not threatened by using multiple providers for access service.

Goals of the Act

Creating an entitlement to UNEs for special access service would run counter to the Commission's local competition goals. Forcing TELRIC prices on the special access market would devalue alternative provider investment in facilities and reduce their incentive to continue to invest. It would also discourage CLECs from building out facilities to remaining customer locations and ILECs from investing in high capacity facilities and network capacity upgrades because the returns on those investments would be artificially limited.

VI. IF UNES WERE TO BE MADE AVAILABLE FOR SPECIAL ACCESS SERVICES, THE COMMISSION SHOULD CONTINUE ITS POLICY OF LINKING ACCESS UNES TO THE PROVISION OF LOCAL SERVICE

Even should the Commission reach a conclusion that UNEs can legally be made available for special access services, the Commission has the legal authority to continue,

UNE Remand Order, 15 FCC Rcd at 3860, ¶ 365.

AT&T Reply Comments, filed June 10, 1999, at 125, n. 256 (drawing a contrast to the local market, AT&T states "CLECs for many years have had internal processes in place for analyzing and ordering special access,").

and should continue, to link the use of UNEs for access services to the provision of local exchange service. ⁹¹ This linkage serves both local competition and universal goals. Various IXCs have tried to make a case that the Commission is under some legal compulsion to provide them the windfall of transforming the special access circuits they have ordered from ILECs to UNEs. However, Section 251(c)(3) expressly permits the Commission to impose "just, reasonable and non-discriminatory" conditions on UNEs. A continued link between access and local service would meet section 251(c)(3)'s requirements. At an absolute minimum, the Commission can determine how combinations of UNEs – an entitlement that it created — may be used.

A. The Commission Has Consistently Linked The UNE Provision Of Access Service To Local Exchange Service For Local Competition Policy Reasons

The Commission has linked the availability of UNEs for access services to the provision of local exchange service. As discussed in detail above at pp. 6-8, the Commission has established this linkage for UNE loops, switches and transport. Whether it is phrased as an eligibility requirement, a determination of the extent of the unbundling obligation imposed, or a use restriction should be irrelevant. The Commission has determined that allowing carriers to lay separate claim to access revenues would deny those necessary revenues to carriers genuinely interested in providing local exchange service. Doing so is likely to harm the development of local competition.

Supplemental Order Clarification, 15 FCC Rcd at 9598-9600, ¶ 22.

See Local Competition Order, 11 FCC Rcd at 15679, ¶¶ 356-57 (linking the use of UNE loops to the provision of local exchange and exchange access service); Order on Reconsideration, 11 FCC Rcd 13042 (1996) (same result for UNE switching); Shared Transport Order, 12 FCC Rcd at 12483 (same result for UNE dedicated and shared transport).

B. Revenue Implications Of Creating An IXC Entitlement To Special Access At UNE Rates

The 2000 Special Access Report, attached to USTA's Comments in an earlier comment round in this proceeding, analyzes the likely effect on ILEC and IXC revenues of creating an IXC entitlement to substitute UNEs for special access services. The Commission does not ordinarily engage in mandating huge wealth transfers that provide no consumer benefits. It should not do so here, particularly where such regulatory action would interfere with a vibrant competitive market.

C. Section 251(c)(3) Expressly Allows Just, Reasonable, And Nondiscriminatory Conditions On UNEs

Section 251(c)(3) expressly permits "just, reasonable, and nondiscriminatory" conditions on access to UNEs. 47 U.S.C. § 251(c)(3). Local competition and universal service policy goals support linking UNE loops, switching and transport to the provision of both local exchange and access service. Each of these is independently sufficient to meet section 251(c)(3)'s "just, reasonable, and nondiscriminatory" standard.

The Commission has already articulated a local competition need to link the use of UNEs for local exchange and exchange access services, as discussed above. A continued prohibition on substituting UNE combinations for ILEC special access and connecting UNEs to tariffed services will have no ill effect on local competition. These local competition policy reasons, standing alone, are more than sufficient to meet the standard set out in section 251(c)(3).

Requiring carriers that use UNEs for access to serve local end users also meets the "just, reasonable, and nondiscriminatory" test because it safeguards universal service

⁹³ Supplemental Order Clarification, 15 FCC Rcd at 9598, ¶ 21.

until new state and federal funding mechanisms are in place.⁹⁴ In particular, state universal service funding often depends on implicit subsidies in intrastate switched access and dedicated private line charges.

Universal service reform pursuant to section 254 is necessary to eliminate regulatory pricing distortions -- such as recovery of fixed network costs through trafficsensitive access charges -- that impede full competition. State commissions are addressing this issue now. The Commission has recognized, however, that "implementation of the [UNE] requirements of section 251 now, without taking into account the effects of the new rules on our existing access charge and universal service regimes, may have significant, immediate, adverse effects that were neither intended nor foreseen by Congress." The Commission accordingly adopted a temporary plan that required carriers to pay access charges to the ILEC when they used UNEs to provide access services to their local customers.

The Commission cited "ample legal authority" to implement its plan, including sections 4(i) and 251(g) of the Act. 98 Furthermore, the Commission rounded its legal analysis by noting that allowing carriers to purchase UNEs as a substitute for access services, and thereby avoid contributing to universal service, "would be undesirable as a

See Competitive Telecomms. Ass'n v. FCC, 117 F.3d 1068, 1074-75 (8th Cir. 1997) ("CompTel") (explaining that "Congress did not intend that universal service should be adversely affected by the institution of cost-based rates" for UNEs); Texas Office of Pub. Util. Counsel v. FCC, 183 F.3d 393, 437 (5th Cir. 1999) ("defer[ing] to the agency's reasonable judgment about what will constitute 'sufficient' support during the transition period from one universal service system to another").

⁹⁵ See Local Competition Order, 11 FCC Rcd at 15506-08 15863, ¶¶ 5, 9, 718.

⁹⁶ *Id.* at 15862, ¶¶ 716.

⁹⁷ *Id.* at 15864-66, ¶¶ 772-725.

⁹⁸ *Id.* at 15866-67, ¶ 726.

matter of both economics and policy." These concerns remain prominent with regard to intrastate access charges.

On review, the Eighth Circuit strongly agreed with the Commission that imposing access charges on UNE-based access providers was consistent with the statutory scheme. The Act "plainly preserves" access charges, and it was reasonable for the Commission temporarily to balance the statutory command of cost-based UNE pricing with "another major purpose of the Act" - supporting universal service. That principle dictates restrictions on use of UNEs and UNE combinations to bypass intrastate access charges during the period while universal service support is derived from such access charges.

Allowing CLECs (or interexchange carriers themselves) to purchase loops and transport at TELRIC rates as a substitute for tariffed access services would render academic state access charges. Interexchange carriers would not pay the tariffed charges, because they could obtain access over the incumbent's same network at a somewhat lower rate, while the access provider (either a CLEC or the interexchange carrier) simultaneously earned a large profit by arbitraging the difference between regulated access rates and TELRIC-based UNE prices. The ILEC would be left to carry local traffic without earning access revenues. Despite the fact that states continue to rely on access charges as a significant source of universal service support, permitting UNEs to be

⁹⁹ *Id.* at 15863, ¶ 719.

¹⁰⁰ CompTel v. FCC, 117 F.3d 1068.

¹⁰¹ *Id.* at 1072

¹⁰² *Id.* at 1074.

See generally, Texas Office of Pub. Util. Counsel v. FCC, 183 F.3d 393.

substituted for access would be the end of access charges as a viable means of recovering the costs of universal service, even though the ILEC still would bear the very same expense of providing local dial-tone services.

Such roundabout termination of the access charge regime – prior to actual elimination of implicit universal service subsidies at the state level – would be inconsistent with the Act. As the Commission has held, Congress did not intend that universal service would be compromised by elimination of ILECs' access charge recoveries. Accordingly, implementation of section 251 must "tak[e] into account the effects of the new rules on [the] existing access charge and universal service regimes." This is, in fact, a statutory requirement, for section 251(g) preserves existing access charge recoveries until the FCC expressly establishes a new regime. 47 U.S.C. § 251(g).

Nor would consumers, having been saddled with interexchange carriers' prior universal service obligations, receive offsetting benefits in the form of more local competition. The whole issue is whether CLECs and interexchange carriers may use UNEs only to access bypass, without also having to provide local exchange service. Indeed, access bypass would actually retard local competition. The only new local competition would come where it is least needed: access services were competitive in most major markets even before the Act, due to the entry of competitive access providers who themselves have thrived by undercutting exchange access charges that contain implicit subsidies. All that would be accomplished by UNE-based access bypass

Local Competition Order, 11 FCC Rcd at 15862, ¶ 716.

¹⁰⁵ *Id*.

See Local Competition Order, 11 FCC Rcd at 15506, ¶ 5 (noting competitive access providers' ability to arbitrage ILECs' access prices).

would be substitution of a new form of competitive entry (using the incumbent's own network, obtained at TELRIC cost) for an established one (using competitive networks). Such a move <u>away from</u> competition between alternative networks is not what Congress had in mind when it drafted the Act ¹⁰⁷

D. At An Absolute Minimum, The Commission Has The Legal Authority To Limit The Availability Of UNE Combinations To Carriers Providing Both Local and Access Service To An End User Customer

The Act contains no explicit requirement that ILECs provide combinations of UNEs. *AT&T v. Iowa Utilities Bd.*, 142 L.Ed 2d at 858 ("[t]he reality is that § 251(c)(3) is ambiguous on whether leased network elements may or must be separated."). The Commission chose to read an obligation not to separate existing UNE combinations into section 251(c)(3) on the theory that such an obligation would speed the development of local competition. ¹⁰⁸

Where the Commission uses its discretion to create an entitlement, it has the legal authority to tailor that entitlement to accomplish its goals. As explained above, a link between access and local exchange furthers local competition, universal service and access reform goals. As the Commission observed in the *Supplemental Order Clarification*, linking the two will in no way harm the development of local competition. 109

See, e.g., S. Conf. Rep. No. 104-230, at 1 (1996) (Act "designed to accelerate rapidly private sector deployment of advanced telecommunications and information technologies"); See also Notice of Proposed Rulemaking, Order on Remand, and Waive Order, In the Matter of Amendment of the Comm'n's Rules to Establish Competitive Serv. Safeguards for Local Exchange Carrier Provision of Commercial Mobile Radio Servs., 11 FCC Rcd 16639, 16678-79, ¶ 80 (1996) ("The interconnection provisions of the Act, Sections 251 and 252, are designed to promote facilities-based local exchange competition").

Local Competition Order, 11 FCC Rcd at 15647, ¶ 293

Supplemental Order Clarification, 15 FCC Rcd at 9598, ¶ 21.

VII. CONCLUSION

Free from UNE regulation, vigorous facilities-based competition has become the norm for special access services. Today, CLECs deliver over one-third of the special access services purchased in the country over their own networks. Local competition and alternative facilities have clearly arrived in this sector. Expanding UNE regulation into the special access business can only harm competition and could never be squared with the impairment analysis required under section 251(d)(2).

Because sufficient alternatives exist, carriers are not impaired in their ability to deliver special access services without UNEs, and the Commission must remove the network elements used to deliver those services from its list of UNEs. The best solution is simply to remove the network facilities used to deliver special access services from the UNE list. These are principally high capacity loop facilities and dedicated interoffice transport. Because high capacity loops are not used to deliver local exchange service to residential and small business customers, removing these network elements from the UNE list will not affect local exchange service competition. CLECs can deliver basic local exchange service to larger business customers over the same high capacity alternative facilities they use to deliver special access services.

Removing dedicated interoffice transport facilities from the UNE list will also not affect local exchange competition. First, common transport will continue to be available to support UNE platform competition for the residential. The UNE platform appears to be the principal UNE vehicle for residential competition. Second, CLECs and local fiber wholesalers provide broadly available interoffice dedicated transport alternatives. The scope of these alternatives has expanded greatly beyond those in place at the time of the

Commission's *UNE Remand Order*.¹¹⁰ Expanding connections to ILEC central offices is a relatively simple matter, and one that CLECs have proven over and over that they can accomplish without UNEs. Thus, the Commission's conclusion that CLECs can quickly expand their existing networks at low marginal costs.¹¹¹

Removing high capacity UNE loops and dedicated transport from the UNE list would provide certainty to the market and could be administered without continuous regulatory oversight. Doing so is consistent with today's market realities and the development of vibrant facilities-based special access competition without UNEs.

Respectfully submitted,

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Special Access Fact Report at 10.

WorldCom v. FCC, (D.C. Circuit, Jan. 2001), Brief of FCC, Respondent, at 36 (July 20, 2000).



















